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The Minimum Tax Is Like Jumbo Shrimp

The [alternative minimum tax](#)—otherwise known as AMT—is one of many twisted features of our complex tax code. It may be the most insidious and counter-intuitive tax there is. AMT attempts to ensure that taxpayers who claim certain exclusions, deductions and credits pay a minimum amount of tax. The AMT was enacted in 1969 to catch high income taxpayers claiming large and obscure tax deductions.

It was truly an alternative and minimum tax. No matter how much you wiped out your income with exotic tax perks like intangible drilling costs and other tax-shelter sounding items, you paid a smaller alternative tax rate on virtually everything with no deductions. But as the years passed the AMT took on a life of its own.

Today, the AMT has grown to cover almost everything. See [10 Things To Know About Taxes On Damages](#). And predicting how AMT works isn't easy. You can't eyeball your exposure. You compute regular tax and AMT and pay whichever is higher. It truly is an alternative tax system.



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A Congressional Research Service [report](#) made the dire prediction that 30 million taxpayers—one out of every five—will pay it for 2012:

- 1997: 605,000 taxpayers, about 1% of all taxpayers paid AMT.
- 2009: 3.8 million taxpayers, 2.7% of all taxpayers paid AMT.
- 2012: Over 30 million taxpayers will pay AMT or have AMT limits on tax credits (though the tax bill passed at New Year's 2013 surely reduced that number to as low as 4 million. See [How the New Tax Act Affects the Alternative Minimum Tax](#)).
- 2020: 58 million taxpayers will be hit by AMT.

You may have to pay AMT if your taxable income plus certain adjustments is more than the AMT exemption amount. The 2012 AMT exemption amounts are:

- Single and Head of Household = \$50,600;
- Married Filing Joint and Qualifying Widow(er) = \$78,750; and
- Married Filing Separate = \$39,375.

Commercial return prep programs and IRS e-file software will determine if you owe AMT. If you do, it will figure the tax for you. If you file a paper return, you can use the AMT Assistant tool at IRS.gov. Here are other IRS resources:

- [Alternative Minimum Tax \(AMT\) Assistant for Individuals](#)
- [Tax Topic 556](#) – Alternative Minimum Tax
- [Form 6251](#), Alternative Minimum Tax – Individuals

Even if you're good with numbers, it can be hard to see AMT coming.

Example: You hire a contingent fee lawyer in connection with an investment and recover \$500,000. \$200,000 goes directly to your lawyer and you net \$300,000. Is your income \$300,000 or \$500,000? Despite the direct payment to the lawyer, it's \$500,000. Plus, your legal fees are only a miscellaneous itemized deduction so face limitations. What's worse, for AMT purposes the fees aren't deductible at all. See [AMT Problems For Attorney Fees Remain](#). And that's just one of hundreds of examples of how the AMT can make your taxes spin out of control.

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